

B U S I N E S S S I T U A T I O N

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REAL GROSS domestic product (GDP) increased 6.1 percent in the fourth quarter of 1998, according to the “preliminary” estimates of the national income and product accounts (NIPA’s), after increasing 3.7 percent in the third quarter (table 1 and chart 1); the “advance” fourth-quarter estimate of real GDP, reported in the February “Business Situation,” had shown a 5.6-percent increase.¹ The upward revision to real GDP reflected a downward revision to imports of

1. Quarterly estimates in the NIPA’s are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified. Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarters except those in the most recent year, which are calculated using quarterly weights; real estimates are expressed both as index numbers (1992=100) and as chained (1992) dollars. Price indexes (1992=100) are also calculated using a chain-type Fisher formula.

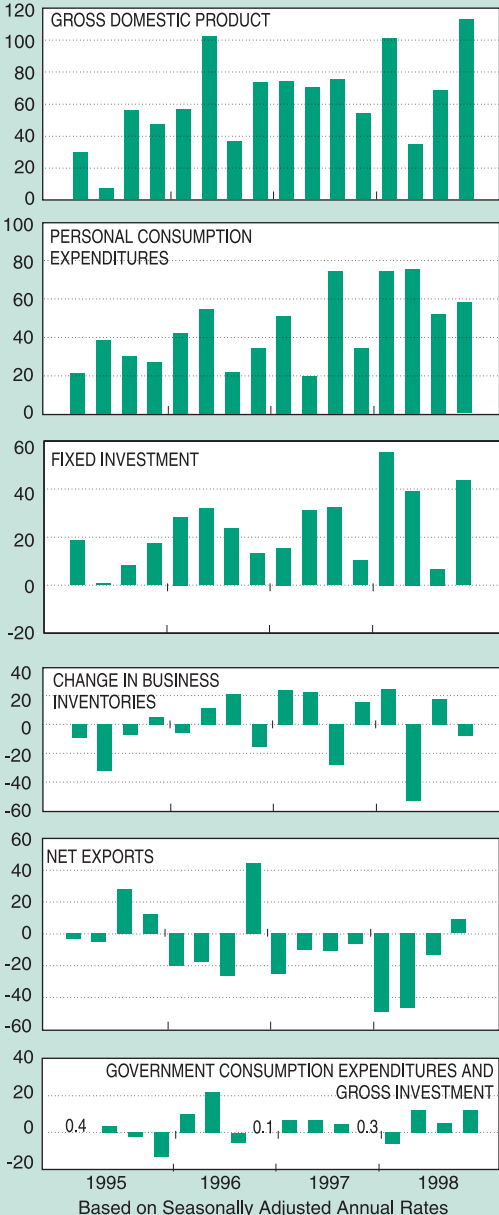
Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers
[Seasonally adjusted at annual rates]

| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------------------------|-------|------|-------|---------------------------------------|-------|-------|-------|
| | Level | Change from preceding quarter | | | | 1998 | | | |
| | | | | | | | | | |
| | | 1998 | 1998 | | | | I | II | III | IV |
| IV | I | II | III | IV | | | | | |
| Gross domestic product | 7,678.5 | 100.1 | 33.9 | 67.9 | 112.0 | 5.5 | 1.8 | 3.7 | 6.1 |
| Less: Exports of goods and services | 1,010.6 | -6.9 | -19.8 | -6.8 | 45.3 | -2.8 | -7.7 | -2.8 | 20.2 |
| Plus: Imports of goods and services | 1,261.1 | 42.6 | 26.9 | 7.0 | 36.8 | 15.7 | 9.3 | 2.3 | 12.6 |
| Equals: Gross domestic purchases | 7,902.5 | 142.8 | 73.7 | 80.2 | 103.7 | 7.8 | 3.9 | 4.2 | 5.4 |
| Less: Change in business inventories | 47.8 | 24.9 | -53.2 | 17.5 | -7.9 | ..... | ..... | ..... | ..... |
| Nonfarm | 40.7 | 23.2 | -56.0 | 17.1 | -6.3 | ..... | ..... | ..... | ..... |
| Farm | 7.6 | 1.6 | 3.4 | .4 | -1.5 | ..... | ..... | ..... | ..... |
| Equals: Final sales to domestic purchasers | 7,850.4 | 120.1 | 124.2 | 63.4 | 110.6 | 6.6 | 6.7 | 3.3 | 5.8 |
| Personal consumption expenditures | 5,239.5 | 74.1 | 75.1 | 51.6 | 57.7 | 6.1 | 6.1 | 4.1 | 4.5 |
| Durable goods | 768.0 | 25.5 | 19.1 | 4.3 | 34.3 | 15.8 | 11.2 | 2.4 | 20.1 |
| Nondurable goods | 1,564.5 | 26.9 | 19.7 | 8.2 | 15.4 | 7.4 | 5.3 | 2.1 | 4.1 |
| Services | 2,917.3 | 24.5 | 37.5 | 38.0 | 12.5 | 3.5 | 5.4 | 5.4 | 1.7 |
| Gross private domestic fixed investment | 1,314.4 | 55.4 | 39.2 | 6.8 | 43.5 | 20.4 | 13.4 | 2.2 | 14.4 |
| Nonresidential fixed investment | 994.8 | 45.7 | 28.5 | -1.7 | 36.1 | 22.2 | 12.8 | -7 | 16.0 |
| Structures | 205.7 | -2.6 | -1.2 | .1 | 3.7 | -4.9 | -2.3 | .2 | 7.4 |
| Producers' durable equipment | 803.8 | 52.4 | 32.5 | -2.0 | 34.5 | 34.3 | 18.8 | -1.0 | 19.2 |
| Residential investment | 324.5 | 10.6 | 10.6 | 7.4 | 8.0 | 15.6 | 15.0 | 9.9 | 10.6 |
| Government consumption expenditures and gross investment | 1,311.7 | -6.2 | 11.8 | 4.8 | 12.1 | -1.9 | 3.7 | 1.5 | 3.8 |
| Federal | 460.6 | -10.4 | 8.0 | -1.6 | 8.1 | -8.8 | 7.3 | -1.4 | 7.3 |
| National defense | 304.5 | -15.4 | 7.0 | 3.2 | 1.0 | -18.5 | 9.9 | 4.3 | 1.3 |
| Nondefense | 155.3 | 4.6 | 1.0 | -4.5 | 6.9 | 13.1 | 2.6 | -11.5 | 20.0 |
| State and local | 851.3 | 4.2 | 3.8 | 6.4 | 4.0 | 2.1 | 1.8 | 3.1 | 1.9 |
| Addendum: Final sales of domestic product | 7,626.6 | 77.7 | 83.9 | 51.2 | 119.0 | 4.3 | 4.6 | 2.8 | 6.5 |

NOTE.—Chained (1992) dollar series are calculated as the product of the chain-type quantity index and the 1992 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1992) dollar levels and residuals, which measure the extent of nonadditivity in each table, are in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are in NIPA table 8.1.

CHART 1

Real Product:
Change from Preceding Quarter
Billion chained (1992) \$



goods, which are subtracted in the calculation of GDP, and upward revisions to personal consumption expenditures for nondurable goods and to exports of goods; these revisions were partly offset by a downward revision to business investment in equipment. (The sources of the revisions are discussed in the section “Revisions.”)

The 6.1-percent increase in the fourth quarter is the largest increase since the second quarter of 1996 and is nearly double the 3.1-percent average annual growth rate for real GDP over the current expansion that began in the second quarter of 1991.

The picture of the economy in the fourth quarter presented by the preliminary estimates is little changed from that presented by the advance estimates. Like the advance estimates, the preliminary estimates showed the following:

- Real GDP growth accelerated in the fourth quarter. The acceleration was attributable to a sharp turnaround in motor vehicle output, which jumped 82.1 percent after falling 11.2 percent, partly reflecting a rebound from a midsummer strike at a major manufacturer. GDP less motor vehicles increased 4.0 percent after increasing 4.2 percent.
- Real final sales of domestic product accelerated more than GDP, as business investment

in inventories decreased in the fourth quarter after increasing in the third.²

- Real gross domestic purchases accelerated less than GDP; an upturn in exports more than offset an acceleration in imports.³
- The largest contributors to the fourth-quarter increase in real GDP were exports of goods, personal consumption expenditures for durable goods, and business investment in equipment (table 2). The increase in GDP was moderated by an increase in imports of goods and by a decrease in business investment in inventories.

The price index for gross domestic purchases increased 0.8 percent in the fourth quarter after increasing 0.7 percent in the third (table 3); over the past four quarters, prices have increased 0.4 percent, the smallest four-quarter increase during the current expansion. The price index for GDP increased 0.7 percent in the fourth quarter, the smallest increase in 35 years, after increasing 1.0 percent in the third. GDP prices decelerated while gross domestic purchases prices accelerated slightly, primarily because import prices, which

2. Final sales of domestic product is calculated as GDP less change in business inventories.

3. Gross domestic purchases—a measure of purchases by U.S. residents regardless of where the purchased goods and services were produced—is calculated as GDP less exports of goods and services plus imports of goods and services.

Table 2.—Contributions to Percent Change in Real Gross Domestic Product

[Seasonally adjusted at annual rates]

| | 1998 | | | |
|--|-------|-------|------|-------|
| | I | II | III | IV |
| Percent change at annual rate: | | | | |
| Gross domestic product | 5.5 | 1.8 | 3.7 | 6.1 |
| Percentage points at annual rates: | | | | |
| Personal consumption expenditures | 4.09 | 4.09 | 2.78 | 3.20 |
| Durable goods | 1.23 | .91 | .20 | 1.59 |
| Nondurable goods | 1.41 | 1.01 | .42 | .84 |
| Services | 1.40 | 2.14 | 2.15 | .78 |
| Gross private domestic investment | 4.07 | -.75 | 1.22 | 1.79 |
| Fixed investment | 2.82 | 1.95 | .33 | 2.15 |
| Nonresidential | 2.21 | 1.35 | -.08 | 1.69 |
| Structures | -.15 | -.07 | .01 | .23 |
| Producers' durable equipment | 2.36 | 1.42 | -.09 | 1.46 |
| Residential | .60 | .60 | .41 | .46 |
| Change in business inventories | 1.22 | -2.66 | .89 | -.36 |
| Net exports of goods and services | -2.24 | -2.08 | -.62 | .46 |
| Exports | -.33 | -.92 | -.32 | 2.05 |
| Goods | -.29 | -.98 | .04 | 1.75 |
| Services | -.04 | .06 | -.36 | .30 |
| Imports | -1.94 | -1.18 | -.30 | -1.59 |
| Goods | -1.75 | -1.19 | -.32 | -1.54 |
| Services | -.19 | .01 | .01 | -.06 |
| Government consumption expenditures and gross investment | -.34 | .64 | .27 | .61 |
| Federal | -.57 | .44 | -.09 | .47 |
| National defense | -.84 | .38 | .17 | .11 |
| Nondefense | .26 | .06 | -.26 | .36 |
| State and local | .24 | .20 | .35 | .15 |

NOTE.—NIPA table 8.2 also shows contributions for 1997:III and 1997:IV.

Table 3.—Percent Changes in Price Indexes

[Annual rates based on seasonally adjusted index numbers (1992=100)]

| | 1998 | | | |
|--|------------|------------|------------|------------|
| | I | II | III | IV |
| Gross domestic product | 0.9 | 0.9 | 1.0 | 0.7 |
| Less: Exports of goods and services | -3.4 | -1.8 | -2.8 | -.9 |
| Plus: Imports of goods and services | -10.4 | -4.5 | -4.8 | -.2 |
| Equals: Gross domestic purchases | -.2 | .4 | .7 | .8 |
| Less: Change in business inventories | | | | |
| Equals: Final sales to domestic purchasers | -.1 | .5 | .7 | .8 |
| Personal consumption expenditures | 0 | .9 | 1.0 | .9 |
| Food | 1.1 | 1.3 | 2.8 | 2.0 |
| Energy | -20.2 | -7.5 | -5.8 | -6.8 |
| Other personal consumption expenditures | 1.1 | 1.3 | 1.1 | 1.2 |
| Private nonresidential fixed investment | -3.0 | -3.1 | -3.6 | -2.6 |
| Structures | 2.7 | 3.1 | 1.2 | 1.7 |
| Producers' durable equipment | -5.0 | -5.2 | -5.3 | -4.0 |
| Private residential investment | 0 | 1.7 | 3.7 | 3.9 |
| Government consumption expenditures and gross investment | 1.1 | .8 | 1.5 | 1.5 |
| Federal | 2.7 | 0 | .4 | 1.6 |
| National defense | 2.9 | .3 | .4 | 1.8 |
| Nondefense | 2.2 | -.6 | .5 | 1.2 |
| State and local | .2 | 1.2 | 2.1 | 1.4 |
| Addendum: | | | | |
| Gross domestic purchases less food and energy | .7 | .7 | .7 | .9 |

NOTE.—Percent changes in major aggregates are in NIPA table 8.1. Index number levels are in tables 7.1, 7.2, and 7.4.

are subtracted in the calculation of GDP prices, decreased less in the fourth quarter than in the third.

Real disposable personal income (DPI) increased 4.2 percent in the fourth quarter, the largest increase in more than 2 years, after increasing 3.2 percent in the third. The personal saving rate—personal savings as a percentage of current-dollar DPI—decreased to 0.1 percent in the fourth quarter from 0.2 percent in the third; these rates are the lowest since the quarterly series began in 1946. (For additional information, see “[Note on the Personal Saving Rate](#)” in the February 1999 SURVEY OF CURRENT BUSINESS.)

Personal consumption expenditures

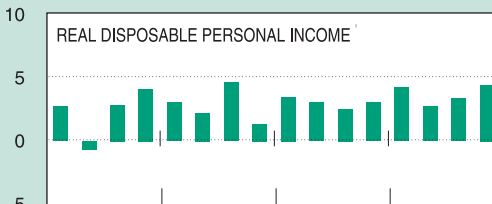
Real personal consumption expenditures (PCE) increased 4.5 percent in the fourth quarter after increasing 4.1 percent in the third ([table 4](#)). Expenditures for durable goods accelerated sharply. Expenditures for nondurable goods also increased more than in the third quarter, but expenditures for services slowed substantially.

Many of the factors usually considered in analyses of PCE remained strong in the fourth quarter ([chart 2](#)). As mentioned earlier, real DPI accelerated. The unemployment rate edged down to 4.4 percent from 4.5 percent. The Index of Consumer Sentiment (prepared by the University of Michigan's Survey Research Center as a

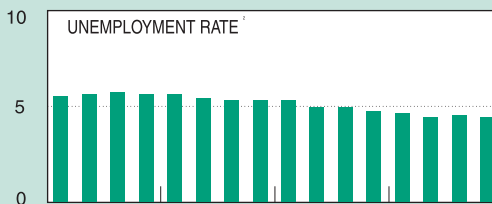
CHART 2

Selected Factors Affecting Consumer Spending

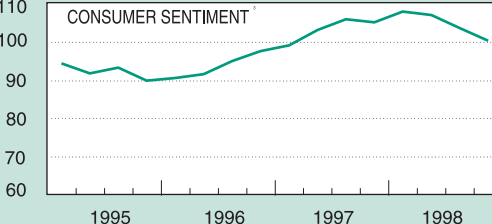
Percent change



Percent



Index



1. Based on chained (1992) dollars; seasonally adjusted annual rates.

2. All civilian workers, seasonally adjusted. Data: U.S. Department of Labor, Bureau of Labor Statistics

3. Data: University of Michigan's Survey Research Center

U.S. Department of Commerce, Bureau of Economic Analysis

Table 4.—Real Personal Consumption Expenditures

[Seasonally adjusted at annual rates]

| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------------------------|-------------|-------------|-------------|---------------------------------------|------------|------------|------------|
| | Level | Change from preceding quarter | | | | 1998 | | | |
| | 1998 | 1998 | | | | I | II | III | IV |
| | IV | I | II | III | IV | I | II | III | IV |
| Personal consumption expenditures | 5,239.5 | 74.1 | 75.1 | 51.6 | 57.7 | 6.1 | 6.1 | 4.1 | 4.5 |
| Durable goods | 768.0 | 25.5 | 19.1 | 4.3 | 34.3 | 15.8 | 11.2 | 2.4 | 20.1 |
| Motor vehicles and parts | 273.8 | 5.1 | 11.1 | -6.3 | 21.2 | 8.6 | 19.1 | -9.3 | 38.1 |
| Of which: | | | | | | | | | |
| New autos | 86.0 | 1.4 | 5.3 | -6.5 | 6.8 | 7.4 | 29.1 | -27.2 | 38.9 |
| New trucks | 77.9 | .8 | 6.7 | -4.4 | 11.2 | 4.7 | 48.4 | -22.5 | 86.1 |
| Furniture and household equipment | 361.5 | 17.7 | 3.5 | 12.7 | 9.5 | 24.1 | 4.3 | 15.7 | 11.3 |
| Other | 140.9 | 4.3 | 3.5 | .5 | 1.8 | 13.9 | 10.5 | 1.6 | 5.2 |
| Nondurable goods | 1,564.5 | 26.9 | 19.7 | 8.2 | 15.4 | 7.4 | 5.3 | 2.1 | 4.1 |
| Food | 730.1 | 6.9 | 9.5 | 2.6 | 11.2 | 4.0 | 5.5 | 1.4 | 6.4 |
| Clothing and shoes | 311.8 | 15.1 | 4.0 | -1.6 | 2.0 | 22.2 | 5.3 | -2.0 | 2.7 |
| Gasoline and oil | 121.4 | .4 | -1 | 2.7 | .3 | 1.4 | -3 | 9.3 | .9 |
| Fuel oil and coal | 9.4 | -9 | .5 | .2 | -5 | -29.7 | 23.6 | 9.4 | -20.0 |
| Other | 395.5 | 6.7 | 5.7 | 4.2 | 2.1 | 7.4 | 6.0 | 4.4 | 2.1 |
| Services | 2,917.3 | 24.5 | 37.5 | 38.0 | 12.5 | 3.5 | 5.4 | 5.4 | 1.7 |
| Housing | 741.5 | 4.8 | 4.0 | 4.4 | 4.4 | 2.7 | 2.2 | 2.4 | 2.4 |
| Household operation | 321.0 | -4.8 | 10.2 | 9.8 | -5.3 | -6.0 | 14.0 | 13.1 | -6.4 |
| Electricity and gas | 115.8 | -7.9 | 6.9 | 6.4 | -8.0 | -24.2 | 27.4 | 24.0 | -23.5 |
| Other household operation | 204.9 | 3.1 | 3.3 | 3.5 | 2.5 | 6.5 | 7.1 | 7.2 | 5.1 |
| Transportation | 221.7 | 2.0 | 3.5 | -9 | 1.2 | 3.7 | 6.7 | -1.7 | 2.3 |
| Medical care | 730.5 | 5.5 | 6.7 | 3.7 | 5.2 | 3.1 | 3.9 | 2.1 | 2.9 |
| Other | 904.4 | 16.3 | 13.8 | 21.5 | 6.2 | 7.9 | 6.5 | 10.2 | 2.8 |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA tables 2.3, 8.5 (autos), and 8.7 (trucks). Percent changes in major aggregates are in NIPA table 8.1.

measure of consumer attitudes and expectations) decreased but remained high.

Expenditures for durable goods jumped 20.1 percent after increasing 2.4 percent. Motor vehicles and parts turned up sharply, reflecting purchases of new trucks and autos. Furniture and household equipment increased strongly, but less than in the third quarter; the deceleration was more than accounted for by a slowdown in consumer electronics.⁴

Expenditures for nondurable goods increased 4.1 percent after increasing 2.1 percent. The acceleration reflected a step-up in food and an upturn in clothing and shoes.

Expenditures for services increased 1.7 percent after increasing 5.4 percent. Electricity and gas turned down, and "other" services slowed sharply. The slowdown in "other" services partly reflected a downturn in net foreign travel spending, which primarily resulted from an upturn in foreigners traveling in the United States, and a deceleration in religious and welfare spending.

Nonresidential fixed investment

Real private nonresidential fixed investment jumped 16.0 percent in the fourth quarter after edging down 0.7 percent in the third (table 5). Producers' durable equipment (PDE) turned up sharply, and structures accelerated.

4. Consumer electronics includes computers; televisions; video and audio equipment; records, tapes, and disks; and musical instruments.

The upturn in private nonresidential fixed investment may have reflected strength in some of the factors that affect investment spending (chart 3). Over the past four quarters, real final sales of domestic product increased 4.5 percent, and long-term interest rates decreased; for example, the yield on high-grade corporate bonds decreased to 6.25 percent from 6.79 percent. In contrast, the capacity utilization rate declined to 81.0 percent from 83.1 percent, and over the first three quarters of 1998, domestic corporate profits decreased at an annual rate of 1.3 percent (profits data for the fourth quarter are not yet available).

PDE jumped 19.2 percent after decreasing 1.0 percent. The upturn was accounted for by a sharp upturn in transportation and related equipment. Industrial equipment increased a little more than in the third quarter, information processing and related equipment increased a little less than in the third quarter, and "other" PDE turned down.

Structures increased 7.4 percent after edging up 0.2 percent; these increases followed two quarters of decline. Nonresidential buildings accounted for the fourth-quarter acceleration. Utilities and "other" structures each increased about the same in both quarters, and mining exploration, shafts, and wells decreased about the same in both quarters.

Table 5.—Real Gross Private Domestic Fixed Investment

[Seasonally adjusted at annual rates]

| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|--|------------------------------------|-------------------------------|-------------|------------|-------------|---------------------------------------|-------------|------------|-------------|
| | Level | Change from preceding quarter | | | | | | | |
| | 1998 | 1998 | | | | 1998 | | | |
| | IV | I | II | III | IV | I | II | III | IV |
| Gross private domestic fixed investment | 1,314.4 | 55.4 | 39.2 | 6.8 | 43.5 | 20.4 | 13.4 | 2.2 | 14.4 |
| Nonresidential | 994.8 | 45.7 | 28.5 | -1.7 | 36.1 | 22.2 | 12.8 | -7 | 16.0 |
| Structures | 205.7 | -2.6 | -1.2 | .1 | 3.7 | -4.9 | -2.3 | .2 | 7.4 |
| Nonresidential buildings, including farm | 153.8 | .6 | -.3 | .3 | 3.7 | 1.5 | -.9 | .8 | 10.4 |
| Utilities | 29.8 | 0 | .3 | .2 | .1 | .9 | 4.2 | 2.1 | 1.7 |
| Mining exploration, shafts, and wells | 16.0 | -1.0 | -.9 | -.6 | -.4 | -18.7 | -19.3 | -12.3 | -10.6 |
| Other | 6.0 | -2.2 | -.1 | .3 | .2 | -73.1 | -9.2 | 21.0 | 13.8 |
| Producers' durable equipment | 803.8 | 52.4 | 32.5 | -2.0 | 34.5 | 34.3 | 18.8 | -1.0 | 19.2 |
| Information processing and related equipment | 421.3 | 32.7 | 23.4 | 22.8 | 21.7 | 47.5 | 29.2 | 26.4 | 23.6 |
| Computers and peripheral equipment | 413.1 | 49.3 | 39.3 | 39.0 | 42.6 | 109.2 | 65.7 | 56.1 | 54.6 |
| Other | 144.8 | 5.2 | 3.0 | 3.1 | 2.0 | 16.9 | 8.9 | 9.3 | 5.9 |
| Industrial equipment | 134.0 | 2.9 | 1.0 | .6 | .9 | 9.3 | 3.0 | 1.7 | 3.0 |
| Transportation and related equipment | 171.1 | 15.8 | 8.3 | -16.2 | 19.4 | 51.7 | 22.4 | -33.4 | 61.8 |
| Of which: Motor vehicles | 132.3 | 5.4 | 6.3 | -11.3 | 11.4 | 19.1 | 21.3 | -29.9 | 43.4 |
| Other | 122.2 | 6.1 | 4.4 | 1.2 | -3.6 | 23.5 | 15.3 | 3.6 | -10.5 |
| Residential | 324.5 | 10.6 | 10.6 | 7.4 | 8.0 | 15.6 | 15.0 | 9.9 | 10.6 |
| Single-family structures | 159.9 | 6.2 | 6.1 | 4.3 | 4.3 | 19.1 | 17.8 | 11.8 | 11.7 |
| Multifamily structures | 21.7 | 1.1 | -1.4 | .1 | .9 | 24.7 | -23.6 | 1.6 | 19.4 |
| Other ¹ | 143.5 | 3.1 | 6.0 | 3.0 | 2.7 | 10.1 | 19.4 | 8.9 | 8.0 |

1. "Other" residential investment includes home improvements, new mobile home sales, brokers' commissions on home sales, residential equipment, and other residential structures (which consists primarily of dormitories and fraternity and sorority houses).

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA tables 5.5, 8.5 (autos), and 8.7 (trucks). Percent changes in major aggregates are in NIPA table 8.1.

Residential investment

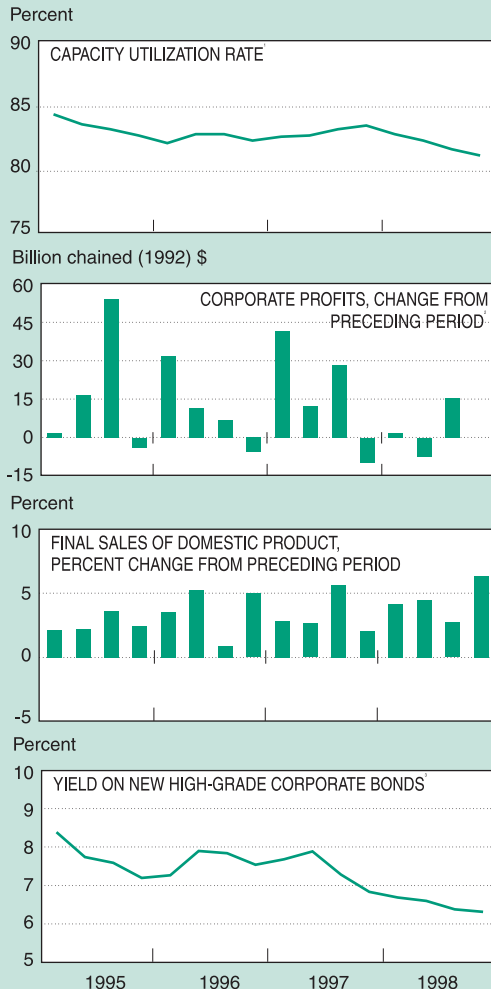
Real residential investment increased 10.6 percent in the fourth quarter after increasing 9.9 percent in the third (table 5). The acceleration was accounted for by multifamily structures, which jumped 19.4 percent after increasing 1.6 percent. Single-family structures increased 11.7 percent after increasing 11.8 percent.

“Other” residential investment increased 8.0 percent after increasing 8.9 percent, reflecting a slowdown in home improvements.⁵ Brokers’ commissions were unchanged; the commitment

5. “Other” residential investment includes home improvements, new mobile home sales, brokers’ commissions on home sales, residential equipment, and other residential structures (which consists primarily of dormitories and fraternity and sorority houses).

CHART 3

Selected Factors Affecting Nonresidential Investment



U.S. Department of Commerce, Bureau of Economic Analysis

rate on 30-year, fixed-rate mortgages decreased slightly to 6.8 percent from 6.9 percent (chart 4).

Inventory investment

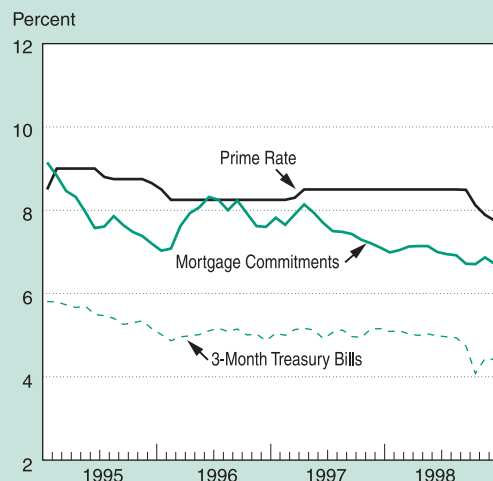
Real inventory investment—that is, the change in business inventories—decreased \$7.9 billion in the fourth quarter, as inventory accumulation slowed to \$47.8 billion from \$55.7 billion; inventory investment had increased \$17.5 billion in the third quarter (table 6). The fourth-quarter slowdown in inventory accumulation was more than accounted for by non-motor-vehicle inventories; motor vehicle inventories swung from liquidation to accumulation, primarily in retail trade.

Manufacturing inventories increased \$6.8 billion after increasing \$19.2 billion. Inventories of both durable goods and nondurable goods industries increased less than in the third quarter. About half of the slowdown in the durable goods industries was accounted for by inventories of transportation equipment; inventories of “other” transportation equipment (mainly aircraft) turned down sharply, more than offsetting an upturn in inventories of motor vehicle manufacturers. In the nondurable goods industries, the slowdown mainly reflected a downturn in inventories of chemical manufacturers.

Wholesale trade inventories increased \$15.6 billion after increasing \$29.6 billion. The slowdown was mainly accounted for by inventories of nondurable goods industries; inventories of farm

CHART 4

Selected Interest Rates



Data: Federal Reserve Board, Federal Home Loan Mortgage Corporation

U.S. Department of Commerce, Bureau of Economic Analysis

products decreased after a sharp increase in the third quarter.

Retail trade inventories increased \$12.5 billion after decreasing \$5.3 billion. Inventories of durable goods industries increased after decreasing, reflecting the pattern of inventories of motor vehicle dealers. Inventories of nondurable goods industries decreased after increasing; the downturn reflected inventories of department stores and apparel stores.

“Other” nonfarm inventories increased a little more than in the third quarter.⁶ The step-up was

6. “Other” nonfarm inventories includes inventories held by the following industries: Mining; construction; public utilities; transportation; communication; finance, insurance, and real estate; and services.

more than accounted for by nondurable goods industries.

Farm inventories increased \$7.6 billion after increasing \$9.1 billion. Crop inventories accounted for the slowdown.

The ratio of real nonfarm inventories to real final sales of domestic businesses decreased to 2.25 in the fourth quarter from 2.27 in the third; the fourth-quarter level was close to the average level of the ratio in the past few years. The inventory-sales ratio that limits final sales to goods and structures decreased to 3.98—the lowest in 25 years—from 4.05.

Table 6.—Real Change in Business Inventories
[Billions of chained (1992) dollars; seasonally adjusted at annual rates]

| | Level | | | | | Change from preceding quarter | | | |
|---------------------------------------|-------|------|-------|------|------|-------------------------------|-------|------|-------|
| | 1997 | 1998 | | | | 1998 | | | |
| | | IV | I | II | III | IV | I | II | III | IV |
| Change in business inventories | 66.5 | 91.4 | 38.2 | 55.7 | 47.8 | 24.9 | -53.2 | 17.5 | -7.9 |
| Farm | 3.7 | 5.3 | 8.7 | 9.1 | 7.6 | 1.6 | 3.4 | .4 | -1.5 |
| Nonfarm | 62.7 | 85.9 | 29.9 | 47.0 | 40.7 | 23.2 | -56.0 | 17.1 | -6.3 |
| Manufacturing | 17.7 | 30.2 | 23.9 | 19.2 | 6.8 | 12.5 | -6.3 | -4.7 | -12.4 |
| Durable goods | 8.1 | 21.0 | 19.1 | 12.0 | 3.5 | 12.9 | -1.9 | -7.1 | -8.5 |
| Nondurable goods | 9.5 | 9.2 | 4.9 | 7.2 | 3.3 | -3 | -4.3 | 2.3 | -3.9 |
| Wholesale trade | 20.2 | 27.0 | 7.6 | 29.6 | 15.6 | 6.8 | -19.4 | 22.0 | -14.0 |
| Durable goods | 8.6 | 25.1 | 1.6 | 15.2 | 12.8 | 16.5 | -23.5 | 13.6 | -2.4 |
| Nondurable goods | 11.4 | 2.3 | 5.9 | 14.3 | 2.9 | -9.1 | 3.6 | 8.4 | -11.4 |
| Retail trade | 16.9 | 17.3 | -11.9 | -5.3 | 12.5 | .4 | -29.2 | 6.6 | 17.8 |
| Durable goods | 14.1 | 1.6 | -16.3 | -7.7 | 13.7 | -12.5 | -17.9 | 8.6 | 21.4 |
| Of which: Motor vehicle dealers | 10.5 | -3.7 | -13.8 | -9.1 | 5.8 | -14.2 | -10.1 | 4.7 | 14.9 |
| Nondurable goods | 2.5 | 16.1 | 4.9 | 2.6 | -1.5 | 13.6 | -11.2 | -2.3 | -4.1 |
| Other | 8.1 | 11.5 | 10.4 | 4.0 | 5.6 | 3.4 | -1.1 | -6.4 | 1.6 |
| Durable goods | 1.2 | .4 | .7 | -1 | -1.7 | -8 | .3 | -8 | -1.6 |
| Nondurable goods | 6.9 | 11.5 | 10.0 | 4.3 | 7.8 | 4.6 | -1.5 | -5.7 | 3.5 |
| Addenda: | | | | | | | | | |
| Motor vehicles | 10.3 | 2.6 | -22.6 | -9.2 | 10.1 | -7.7 | -25.2 | 13.4 | 19.3 |
| Autos | 4.2 | -1 | -12.3 | -3.0 | 5.4 | -4.3 | -12.2 | 9.3 | 8.4 |
| Trucks | 5.9 | 2.5 | -10.2 | -6.0 | 4.9 | -3.4 | -12.7 | 4.2 | 10.9 |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels for most series are in NIPA table 5.11; chained (1992) dollar levels for autos (new and used) and trucks (new only) are in NIPA tables 8.5 and 8.7, respectively.

Table 7.—Real Exports and Imports of Goods and Services
[Seasonally adjusted at annual rates]

| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|---|------------------------------------|-------------------------------|-------|-------|------|---------------------------------------|-------|-------|-------|
| | Level | Change from preceding quarter | | | | | | | |
| | 1998 | 1998 | | | | 1998 | | | |
| | IV | I | II | III | IV | I | II | III | IV |
| Exports of goods and services | 1,010.6 | -6.9 | -19.8 | -6.8 | 45.3 | -2.8 | -7.7 | -2.8 | 20.2 |
| Goods | 769.0 | -6.4 | -22.2 | 1.0 | 41.7 | -3.4 | -11.3 | .6 | 25.0 |
| Agricultural goods | 51.7 | -1.3 | -3.3 | -1.8 | 5.9 | -9.9 | -23.4 | -14.5 | 62.9 |
| Nonagricultural goods | 721.6 | -4.9 | -18.6 | 3.2 | 35.5 | -2.7 | -10.2 | 1.9 | 22.3 |
| Services | 247.4 | -8 | 1.0 | -6.7 | 5.3 | -1.2 | 1.7 | -10.4 | 9.0 |
| Imports of goods and services | 1,261.1 | 42.6 | 26.9 | 7.0 | 36.8 | 15.7 | 9.3 | 2.3 | 12.6 |
| Goods | 1,092.7 | 39.2 | 27.8 | 7.5 | 36.4 | 17.0 | 11.4 | 2.9 | 14.5 |
| Petroleum and products | 71.2 | 1.4 | 6.2 | -1.1 | -2.2 | 8.8 | 41.4 | -5.7 | -11.5 |
| Nonpetroleum products | 1,020.2 | 37.7 | 22.4 | 8.2 | 37.4 | 17.6 | 9.7 | 3.4 | 16.1 |
| Services | 172.0 | 3.8 | -3 | -2 | 1.2 | 9.3 | -6 | -6 | 3.0 |
| Addendum: Net exports of goods and services | -250.5 | -49.5 | -46.7 | -13.8 | 8.5 | | | | |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA table 4.4. Percent changes in major aggregates are in NIPA table 8.1.

Exports and imports

Real exports of goods and services jumped 20.2 percent in the fourth quarter after decreasing 2.8 percent in the third (table 7). Real imports of goods and services increased 12.6 percent after increasing 2.3 percent.

Real exports of goods jumped 25.0 percent after edging up 0.6 percent; exports of nonagricultural goods accelerated sharply, and exports of agricultural goods turned up. The acceleration in nonagricultural goods was partly accounted for by an upturn in automotive vehicles, engines, and parts from a third-quarter decrease that may have partly reflected the midsummer strike at a major manufacturer. In addition, industrial supplies and materials and "other" goods turned up, and capital goods, except automotive accelerated.

Real exports of services increased 9.0 percent after decreasing 10.4 percent. An upturn in travel accounted for most of the upturn.

Real imports of goods jumped 14.5 percent after increasing 2.9 percent; imports of nonpetroleum goods accelerated sharply in the fourth quarter, more than offsetting a larger decrease in imports of petroleum and products in the fourth quarter than in the third. The acceleration in nonpetroleum imports was more than accounted for by an upturn in automotive vehicles, engines, and parts and by an acceleration in computers, peripherals, and parts.

Real imports of services increased 3.0 percent after decreasing 0.6 percent. Passenger fares turned up, and travel was unchanged after decreasing.

Government spending

Real government consumption expenditures and gross investment increased 3.8 percent in the fourth quarter after increasing 1.5 percent in the third (table 8). Federal Government spending turned up, but State and local government spending increased less in the fourth quarter than in the third.

Federal nondefense spending jumped 20.0 percent after falling 11.5 percent. The third- and fourth-quarter changes in nondefense spending were affected by the sale of the United States Enrichment Corporation by the Federal Government; the sale reduced the third-quarter change and raised the fourth-quarter change. (For more information on this sale, see the "Business Situation" in the December 1998 SURVEY.) Consumption expenditures increased after decreasing, reflecting an upturn in durable goods and an increase in services after no change. Investment spending increased slightly after no change, reflecting an upturn in equipment.

Federal defense spending increased 1.3 percent after increasing 4.3 percent. The slowdown was more than accounted for by a downturn in investment spending; both equipment and structures turned down. Consumption expenditures increased after decreasing; the upturn was more than accounted for by services other than compensation of employees.

State and local government spending increased 1.9 percent after increasing 3.1 percent. The slowdown was attributable to compensation of employees and to investment in structures.

Table 8.—Real Government Consumption Expenditures and Real Gross Investment by Type

[Seasonally adjusted at annual rates]

| | Billions of chained (1992) dollars | | | | | Percent change from preceding quarter | | | |
|---|------------------------------------|-------------------------------|-------------|------------|-------------|---------------------------------------|------------|------------|------------|
| | Level | Change from preceding quarter | | | | 1998 | | | |
| | 1998 | 1998 | | | | | | | |
| | IV | I | II | III | IV | I | II | III | IV |
| Government consumption expenditures and gross investment | 1,311.7 | -6.2 | 11.8 | 4.8 | 12.1 | -1.9 | 3.7 | 1.5 | 3.8 |
| Federal | 460.6 | -10.4 | 8.0 | -1.6 | 8.1 | -8.8 | 7.3 | -1.4 | 7.3 |
| National defense | 304.5 | -15.4 | 7.0 | 3.2 | 1.0 | -18.5 | 9.9 | 4.3 | 1.3 |
| Consumption expenditures | 267.3 | -12.1 | 8.2 | -1.0 | 2.2 | -16.8 | 13.3 | -1.4 | 3.3 |
| Gross investment | 37.2 | -3.3 | -1.3 | 4.4 | -1.3 | -29.9 | -13.7 | 62.4 | -12.4 |
| Nondefense | 155.3 | 4.6 | 1.0 | -4.5 | 6.9 | 13.1 | 2.6 | -11.5 | 20.0 |
| Consumption expenditures | 134.6 | 1.0 | 2.9 | -4.5 | 6.2 | 3.3 | 9.1 | -12.8 | 20.9 |
| Gross investment | 20.6 | 4.1 | -2.3 | 0 | .7 | 128.0 | -35.1 | -2 | 13.3 |
| State and local | 851.3 | 4.2 | 3.8 | 6.4 | 4.0 | 2.1 | 1.8 | 3.1 | 1.9 |
| Consumption expenditures | 695.5 | 4.3 | 4.5 | 4.3 | 3.9 | 2.5 | 2.7 | 2.6 | 2.3 |
| Gross investment | 155.7 | -1 | -7 | 2.1 | .1 | 0 | -1.9 | 5.6 | .2 |

NOTE.—See note to table 1 for an explanation of chained (1992) dollar series. Chained (1992) dollar levels and residuals are in NIPA table 3.8. Percent changes in major aggregates are in NIPA table 8.1.

Revisions

As noted earlier, the preliminary estimate of a 6.1-percent increase in real GDP in the fourth quarter is 0.5 percentage point higher than the advance estimate (table 9); this revision is equal to the

Table 9.—Revisions to Change in Real Gross Domestic Product and Prices, Fourth Quarter 1998

(Seasonally adjusted at annual rates)

| | Percent change from preceding quarter | | Preliminary estimate minus advance estimate | | |
|--|---------------------------------------|----------------------|---|------------------------------------|--|
| | Advance estimate | Preliminary estimate | Percent-age points | Billions of chained (1992) dollars | Contribution to percent change in real GDP |
| Gross domestic product | 5.6 | 6.1 | 0.5 | 8.5 | 0.5 |
| Less: Exports of goods and services | 18.8 | 20.2 | 1.4 | 2.9 | .11 |
| Goods | 23.1 | 25.0 | 1.9 | 2.9 | .09 |
| Services | 8.7 | 9.0 | .3 | .2 | .03 |
| Plus: Imports of goods and services | 16.0 | 12.6 | -3.4 | -9.5 | .37 |
| Goods | 18.4 | 14.5 | -3.9 | -9.1 | .33 |
| Services | 4.2 | 3.0 | -1.2 | -5 | .03 |
| Equals: Gross domestic purchases | 5.5 | 5.4 | -1 | -1.5 | ..... |
| Less: Change in business inventories ..... | ..... | ..... | ..... | -1.1 | -.05 |
| Nonfarm ..... | ..... | ..... | ..... | -1.0 | ..... |
| Farm ..... | ..... | ..... | ..... | -.2 | ..... |
| Equals: Final sales to domestic purchasers | 5.9 | 5.8 | -1 | -4 | ..... |
| Personal consumption expenditures | 4.4 | 4.5 | .1 | 1.7 | .17 |
| Durable goods | 21.4 | 20.1 | -1.3 | -2.1 | -.09 |
| Nondurable goods | 3.2 | 4.1 | .9 | 3.1 | .20 |
| Services | 1.7 | 1.7 | 0 | .5 | .07 |
| Fixed investment | 14.8 | 14.4 | -.4 | -1.2 | -.02 |
| Nonresidential | 16.7 | 16.0 | -.7 | -1.7 | -.04 |
| Structures | 5.5 | 7.4 | 1.9 | .9 | .07 |
| Producers' durable equipment | 21.0 | 19.2 | -1.8 | -3.0 | -.11 |
| Residential | 10.1 | 10.6 | .5 | .3 | .02 |
| Government consumption expenditures and gross investment | 4.1 | 3.8 | -.3 | -1.0 | -.11 |
| Federal | 7.9 | 7.3 | -.6 | -.6 | 0 |
| National defense | 1.2 | 1.3 | .1 | 0 | .06 |
| Nondefense | 21.8 | 20.0 | -1.8 | -.6 | -.06 |
| State and local | 2.1 | 1.9 | -.2 | -.4 | -.10 |
| Addenda: | | | | | |
| Final sales of domestic product | 6.0 | 6.5 | .5 | 9.7 | ..... |
| Gross domestic purchases price index ¹ | .9 | .8 | -.1 | ..... | ..... |
| GDP price index ¹ | .8 | .7 | -.1 | ..... | ..... |

1. Based on chained-type annual (1992) weights.

NOTE.—The preliminary estimates for the fourth quarter of 1998 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

Personal consumption expenditures: Retail sales for November and December (revised), consumers' share of new-car purchases for December, average unit value for domestic new autos for December (revised), and consumers' share of new-truck purchases for December.

Nonresidential fixed investment: Construction put in place for October and November (revised) and December, manufacturers' shipments of machinery and equipment for November and December (revised), and exports and imports of machinery and equipment for November (revised) and December.

Residential fixed investment: Construction put in place for October and November (revised) and December.

Change in business inventories: Manufacturing, retail trade, and wholesale trade inventories for November (revised) and December.

Exports and imports of goods and services: Exports and imports of goods for November (revised) and December.

Government consumption expenditures and gross investment: State and local government construction put in place for October and November (revised) and December.

Wages and salaries: Employment, average hourly earnings, and average weekly hours for November and December (revised).

GDP prices: Detailed merchandise export and import price indexes for October through December (revised), unit-value index for petroleum imports for November (revised) and December, housing prices for the fourth quarter, and consumer price indexes (revised to incorporate the use of new seasonal adjustment factors).

average revision, without regard to sign, from the advance estimate to the preliminary estimate for 1978–98.

The upward revision to GDP was more than accounted for by a downward revision to imports of goods and by upward revisions to PCE for nondurable goods and to exports of goods. These revisions were partly offset by a downward revision to PDE.

The revisions to imports of goods and to exports of goods mainly reflected the incorporation of revised November and newly available December Census Bureau data for international trade in goods.

The revision to PCE nondurable goods was more than accounted for by revisions to purchases of food, primarily reflecting the incorporation of revised Census Bureau retail sales data for December and revised Bureau of Labor Statistics (BLS) price data; the revisions to BLS price data were due to the use of new seasonal adjustment factors.

The revision to PDE was primarily accounted for by the incorporation of revised November and newly available December Census Bureau data on shipments of aircraft.

The preliminary estimates of the increases in the price indexes for gross domestic purchases (0.8 percent) and for GDP (0.7 percent) were 0.1 percentage point higher than the advance estimates.

The preliminary estimate of the increase in real DPI was 4.2 percent, 0.6 percentage point higher than the advance estimate. Current-dollar DPI increased 5.2 percent, 0.4 percentage point higher than the advance estimate. The upward revision to DPI was primarily accounted for by an upward revision to current-dollar personal income, which, in turn, was accounted for by upward revisions to farm proprietors' income and to rental income; these revisions primarily reflected more complete information on the size and timing of farm subsidy payments that are included in farm proprietors' income and in rental income of persons. In contrast, wages and salaries were revised down. Personal tax and nontax payments were revised up only slightly. The preliminary estimate of the personal saving rate was 0.1 percent, 0.1 percentage point higher than the advance estimate. 